Austerity could last 'well into 2020s' says IFS think-tank

● Spending cuts or tax rises needed if Chancellor is to eliminate deficit

By **KATIE CAMPBELL**

The UK government's austerity programme is set to last as long as 15 years, with tax rises and cuts to services stretching "well into the 2020s", an influential economic think-tank has warned.

Under current plans, the tax burden will rise to its highest level as a proportion of national income for 30 years, while spending will fall to 13 per cent below its 2010 level by the end of the decade, after inflation is taken into account, the Institute for Fiscal Studies said.

In a gloomy assessment of the UK's economy, the IFS's annual Green Budget warned that Chancellor Philip Hammond will have to find an extra £34 billion from tax rises or spending cuts unless he ditches his target of eliminating the state deficit before 2025.

And the document warned that Theresa May's proposed Brexit strategy of taking the UK out of the single market and imposing immigration controls is likely to leave the UK's economy 3 per cent smaller by 2030 than if Britain had voted Remain.

If the Prime Minister fails to reach a free trade deal with the remaining European Union members, the outcome will be "worse still", it said.

Warning that exports will be hit by new customs and regulatory barriers outside the single market, Andrew Goodwin of Oxford Economics said: "Over the longer term we think the government's chosen path for Brexit is one of the more economically damaging.

"The only outcome that we have studied that would be worse than what the government has chosen would be us not having a trade agreement at all and falling out on World Trade Organisation terms."

Forecasts by Oxford Economics put UK GDP growth at a "relatively disappointing" 1.6 per cent in 2017 and 1.3 per cent in 2018, largely due to higher inflation caused by sterling's collapse after the Brexit vote.

Workers face an "unprecedented" decade without real wage growth, as pay rises slow to 0.2 per cent above inflation in 2017, down from 1.7 per cent in 2016. And the four-year squeeze on benefit levels will become "more painful" as inflation rises.

IFS director Paul Johnson said that, despite the focus on Brexit, the largest impact on the public finances over the coming period would be spending cuts and tax rises inherited by Mr Hammond from George Osborne.

"Even so, the new Chancellor may not find it all that easy to meet his target of eliminating the budget deficit in the next Parliament," he said. "Even on central forecasts that is going to require extending austerity towards the mid-2020s. If the economy does less well than hoped, then we may see yet another set of fiscal rules consigned to the dustbin."

Mr Hammond's plans for £17bn of tax rises over the course of this Parliament will bring the proportion of national income taken by the state above 37 per cent for the first time since 1986-87, said the IFS.

Chancellor Philip Hammond has planned £17 billion worth of tax rises PICTURE: STEFAN ROUSSEAU/PA

Inflation 'may lead to interest rate hike soon'

By **HOLLY WILLIAMS**

The Bank of England may need to hike interest rates soon to stop inflation rising too high as UK growth continues to confound expectations, a top policymaker has warned.

Kristin Forbes, one of the nine rate-setters on the Bank's monetary policy committee, signalled she was inching closer to voting for a rate hike after becoming increasingly "uncomfortable" with surging inflation given the economy's resilience since the Brexit vote.

In a speech in Leeds, Ms Forbes said growth had defied gloomy forecasts ahead of the EU referendum last June thanks to a "series of fortunate events" in the second half of 2016, which are set to keep supporting the economy.

She said the UK's impressive performance since June has made it "increasingly difficult" to justify keeping rates at the record low of 0.25 per cent with inflation predicted to surge close to 3 per cent next year.

She said: "If the real economy remains solid and the pick-up in the nominal data continues, this could soon suggest an increase in bank rate."

Bank governor Mark Carney warned last week that there would be "twists and turns" as Britain leaves the EU, but Ms Forbes said policymakers needed to act soon to ward off the threat of runaway inflation.

Disruptive passenger detained after flight from Pakistan diverted

By **ANGUS HOWARTH**

RAF fighter jets were yesterday scrambled to divert a Pakistan International Airlines plane to Stansted Airport.

Stansted said the flight from Lahore to Heathrow had landed in Essex at 2:50pm after being escorted by Typhoons.

Essex Police said the diversion had been due to reports of a disruptive passenger and was "not believed to be a hijack situation or terror matter".

In an unrelated matter, a passenger due to be arrested by police on arrival at Heathrow was held at Stansted instead.

The Metropolitan Police said the 52-year-old had been arrested on suspicion of committing fraud offences in the UK and was being transferred to a London police station.

RAF Typhoon jets were scrambled to escort the plane

The Airbus A330 was held away from the airport after its diversion and Pakistan International Airlines said passengers were provided with surface transport to London.

Stansted remained open throughout the incident.

An Essex Police spokesman said: "An aircraft was diverted to Stansted Airport at around 3pm this afternoon while over UK airspace en route to Heathrow Airport due to reports of a disruptive passenger on board ... Officers are making inquiries. There is no disruption to the ongoing operation of Stansted Airport."

However, Pakistan International Airlines said that UK authorities had received "some vague security threat through an anonymous phone call" regarding the flight.